



Department of Human Resource Management

**Commonwealth of Virginia State Health Plans Program
For Pre-Medicare Retirees**

GASB No. 75 Schedules

**For the Fiscal Year Ending June 30, 2020
with Select Information for Fiscal Year 2021**

Measurement Date June 30, 2020

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Commonwealth of Virginia

Auditor of Public Accounts

Staci A. Henshaw, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 9, 2021

Department of Human Resource Management
101 N. 14th Street, 12th floor
Richmond, Virginia 23219

INDEPENDENT AUDITOR'S REPORT

Report on the Schedules

We have audited the accompanying schedule of employer allocations of the **Department of Human Resource Management State Health Plans Program for Pre-Medicare Retirees**, as of and for the year ended June 30, 2020, and the related notes. We have also audited the total for all state employers of the columns titled OPEB liability and total OPEB expense included in the accompanying schedule of OPEB liability and OPEB expense of the Department of Human Resource Management State Health Plans Program for Pre-Medicare Retirees, as of and for the year ended June 30, 2020, and the related notes. In addition, we have audited the total for all state employers of the columns titled total deferred outflows of resources and total deferred inflows of resources included in the accompanying schedule of deferred outflows and deferred inflows of resources of the Department of Human Resource Management State Health Plans Program for Pre-Medicare Retirees, as of and for the year ended June 30, 2020, and the related notes. We have also audited the accompanying schedule of benefit payments of the Department of Human Resource Management State Health Plans Program for Pre-Medicare Retirees as of and for the year ended June 30, 2021.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the schedule of employer allocations, the schedule of benefit payments, and the columns titled OPEB liability, total OPEB expense, total deferred outflows of resources, and total deferred inflows of resources (specified column totals) included in the schedule

of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations, the schedule of benefit payments, and specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations, the schedule of benefit payments, and the specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations, the schedule of benefit payments, and the specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations, the schedule of benefit payments, and the specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the Department of Human Resource Management, as well as evaluating the overall presentation of the schedule of employer allocations, the schedule of benefit payments, and the specified column totals included in the schedule of OPEB liability and total OPEB expense and the schedule of deferred outflows and deferred inflows of resources.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the schedules referred to above for the Department of Human Resource Management State Health Plans Program for Pre-Medicare Retirees present fairly, in all material respects, the employer allocations and the OPEB liability for the total of all participating state employers as of and for the year ended June 30, 2020; total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense as of and for the year ended June 30, 2020, for the total of all participating employers; and benefit payments as of and for the year ended June 30, 2021, in accordance with accounting principles generally accepted in the United States of America.

Restriction of Use

Our report is intended solely for the information and use of management of the Department of Human Resource Management, the Commonwealth Joint Legislative Audit and Review Commission, and the Department of Human Resource Management State Health Plans Program for Pre-Medicare Retirees employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

JDF/cj

**Department of Human Resource Management
State Health Plans Program for Pre-Medicare Retirees
Schedule of Employer Allocations
For Fiscal Year Ended June 30, 2020**

Employer Code	Employer Name	June 30, 2020	
		Employer Contributions	Employer Allocation Percentage
20600	VCU Health System Authority	\$ 4,183,964	0.34951%
36000	Fort Monroe Authority	284,004	0.02372%
40700	Virginia Port Authority	21,712	0.00181%
	All Other State Agencies	1,192,604,105	99.62495%
	Total for All State Employers	\$ 1,197,093,785	100.00000%

The accompanying notes are an integral part of the Schedule of Employer Allocations.

**Department of Human Resource Management
State Health Plans Program for Pre-Medicare Retirees
Schedule of OPEB Liability and OPEB Expense
For the Fiscal Year Ended June 30, 2020**

Employer Code	Employer Name	OPEB Liability June 30, 2020	Total OPEB Expense FY 2020
20600	VCU Health Systems Authority	\$1,988,099	(\$926,251)
36000	Fort Monroe Authority	134,949	(28,583)
40700	Virginia Port Authority	10,316	(11,598)
	All Other State Agencies	566,690,446	(139,626,162)
	Total for All State Employers	\$568,823,810	(\$140,592,594)

The accompanying notes are an integral part of the Schedule OPEB Liability and OPEB Expense.

**Department of Human Resource Management
State Health Plans Program for Pre-Medicare Retirees
Schedule Of Deferred Outflows and Deferred Inflows of Resources
For the Fiscal Year Ended June 30, 2020**

Employer Code	Employer	Deferred Outflows of Resources				Deferred Inflows of Resources			
		Difference Between Expected and Actual Experience	Change of Assumptions	Changes In Proportionate Share	Total Deferred Outflows of Resources	Difference Between Expected and Actual Experience	Change of Assumptions	Changes In Proportionate Share	Total Deferred Inflows of Resources
20600	VCU Health Systems Authority	\$ -	\$ -	\$ -	\$ -	\$1,012,217	\$1,627,885	\$1,619,465	\$4,259,567
36000	Fort Monroe Authority	-	-	66,266	66,266	68,708	110,499	74,771	253,978
40700	Virginia Port Authority	-	-	-	-	5,253	8,448	30,256	43,957
	All Other State Agencies	-	-	51,605,299	51,605,299	288,524,142	464,014,982	49,947,073	802,486,197
	Total for All State Employers	\$ -	\$ -	\$51,671,565	\$51,671,565	\$289,610,320	\$465,761,814	\$51,671,565	\$807,043,699

The accompanying notes are an integral part of the Schedule of Deferred Outflows and Deferred Inflows of Resources.

**Department of Human Resource Management
State Health Plans Program for Pre-Medicare Retirees
Schedule of Benefit Payments
For Fiscal Year Ended June 30, 2021**

Employer Code	Employer Name	Benefit Payments FY 2021
20600	VCU Health Systems Authority	\$129,457
36000	Fort Monroe Authority	8,787
40700	Virginia Port Authority	672
	All Other State Agencies	36,900,649
	Total for All State Employers	\$37,039,565

The accompanying notes are an integral part of the Schedule of Benefit Payments.

Department of Human Resource Management
State Health Plans Program for Pre-Medicare Retirees
Notes to GASB No. 75 Schedules
For the Fiscal Year Ended June 30, 2020

Note 1: Summary of Significant Accounting Policies

Pre-Medicare Retiree Healthcare Plan

Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan that is treated like a cost-sharing plan for financial reporting purposes. This program was established by Title 2.2, Chapter 28 of the *Code of Virginia* for retirees who are not yet eligible to participate in Medicare. It is the same health insurance program offered to active employees and managed by the Virginia Department of Human Resource Management. After retirement, the Commonwealth of Virginia no longer subsidizes the retiree's premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, retiree rates are effectively lower than what might otherwise be available outside of this benefit.

Note 2: General Information about Pre-Medicare Retiree Healthcare

The Department of Human Resource Management (Human Resource Management) is an agency of the Commonwealth of Virginia. Human Resource Management is the administrator of the Commonwealth's employee health insurance program. The Commonwealth provides a health benefits program established by Title 2.2, Chapter 28 of the Code of Virginia for retirees who are not yet eligible to participate in Medicare.

Following are eligibility requirements for Virginia Retirement System retirees:

- You are a retiring state employee who is eligible for a monthly retirement benefit from the Virginia Retirement System (VRS), and
- You start receiving (do not defer) your retirement benefit immediately upon retirement*, and
- Your last employer before retirement was the Commonwealth of Virginia, and
- You were eligible for (even if you were not enrolled) coverage as an active employee in the State Health Benefits Program until your retirement date (not including Extended Coverage/COBRA), and
- You enroll no later than 31 days from your retirement date.

**For VRS retirees, this means that your employing agency reported a retirement contribution or leave without pay status for retirement in the month immediately prior to your retirement date. Some faculty members may also be eligible if they are paid on an alternate pay cycle but maintain eligibility for active coverage until their retirement date.*

Effective January 1, 2017**, following are eligibility requirements for Optional Retirement Plan retirees:

- You are a terminating state employee who participates in one of the qualified Optional Retirement Plans, and
- Your last employer before termination was the Commonwealth of Virginia, and
- You were eligible for (even if you were not enrolled) coverage in the State Employee Health Benefits Program for active employees at the time of your termination, and
- You meet the age and service requirements for an immediate retirement benefit under the non-ORP Virginia Retirement System plan that you would have been eligible for on your date of hire had you not elected the ORP, and
- You enroll in the State Retiree Health Benefits Program no later than 31 days from the date you lose coverage (or lose eligibility for coverage) in the State Health Benefits Program for active employees due to your termination of employment.

**This change applies to ORP terminations effective January 1, 2017, or later. Eligibility for those who terminated employment prior to January 1 should be determined based on the policy in place at the time of their termination.

The employer does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the employer effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of the premiums for active employees.

This fund is reported as part of the Commonwealth's Healthcare Internal Service Fund. Benefit payments are recognized when due and payable in accordance with the benefit terms. Pre-Medicare Retiree Healthcare is a single-employer defined benefit OPEB plan and is administered by Human Resource Management. There were approximately 4,400 retirees and 90,000 active employees in the program as of June 30, 2020. There are no inactive employees entitled to future benefits who are not currently receiving benefits. There are no assets accumulated in a trust to pay benefits.

Note 3: Actuarial Assumptions and Methods

The total Pre-Medicare Retiree Healthcare OPEB liability was based on an actuarial valuation with a valuation date of June 30, 2020. Human Resource Management selected the economic, demographic and health care claim cost assumptions and prescribed them for use for purposes of compliance with GASB 75. The actuary provided guidance with respect to these assumptions. Initial healthcare costs trend rates used were 6.75 percent for medical and pharmacy and 4.0 percent for dental. The ultimate trend rates used were 4.50 percent for medical and pharmacy and 4.0 percent for dental.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level dollar, Closed
Effective Amortization Period	6.34 years
Discount Rate	2.21%
Projected Salary Increases	4.0%
Medical Trend Under 65	Medical & Rx: 6.75% to 4.50% Dental: 4.00%
Year of Ultimate Trend	2029
Mortality	Mortality rates vary by participant status
Pre-Retirement:	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males set back 1 year, 85% of rates; females setback 1 year
Post-Retirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year with 1.5% increase compounded from ages 70 to 85
Post-Disablement:	RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates

The discount rate was based on the Bond Buyers GO 20 Municipal Bond Index as of the measurement date of June 30, 2020.

Changes of Assumptions: The following actuarial assumptions were updated since the June 30, 2019 valuation based on recent experience:

- Spousal Coverage – reduced the rate from 25% to 20%
- Retiree Participation - reduced the rate from 50% to 45%

Spousal coverage and retiree participation were both reduced based on a blend of recent experience and the prior year assumptions. The mortality assumption was modified slightly to reflect mortality improvement projection scale BB, including age over 65 in pre-retirement mortality base rates.

No excise tax has been reflected due to the SECURE Act. Among the provisions was a repeal of three taxes and fees that were originally intended to help fund the Affordable Care Act (ACA): i) the excise tax on high-cost health plans (Cadillac tax); ii) the annual fee on health insurance providers; and iii) the medical device excise tax.

The trend rates were updated based on economic conditions as of June 30, 2020. Additionally, the discount rate was decreased from 3.51% to 2.21% based on the Bond Buyers GO 20 Municipal Bond Index.

Note 4: Pre-Medicare Retiree Healthcare OPEB Liability

The Commonwealth's Pre-Medicare Retiree Healthcare total OPEB liability of \$568.8 million was measured as of June 30, 2020, and was determined by an actuarial valuation as of June 30, 2020 (\$ millions):

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 6/30/19	\$ 678.9
Changes for the year:	
Service cost	48.0
Interest	25.0
Changes of benefit terms	0.0
Difference between Expected and Actual Experience	(24.1)
Changes of Assumptions	(130.0)
Benefit Payments	(28.9)
Rounding Adjustment	(0.1)
Net Changes	(110.1)
Balance at 6/30/20	\$ 568.8

Sensitivity Analysis

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Commonwealth, as well as what the Commonwealth's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.21 percent) or 1-percentage-point higher (3.21 percent) than the current discount rate (\$ millions):

	1% Decrease (1.21%)	Current Rate (2.21%)	1% Increase (3.21%)
Total OPEB liability	\$598.6	\$568.8	\$538.7

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Commonwealth, as well as what the Commonwealth's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.75 percent decreasing to 3.50 percent) or 1-percentage-point higher (7.75 percent decreasing to 5.50 percent) than the current healthcare cost trend rates (\$ millions):

	1% Decrease (5.75% decreasing to 3.50%)	Trend Rate (6.75% decreasing to 4.50%)	1% Increase (7.75% decreasing to 5.50%)
Total OPEB Liability	\$509.9	\$568.8	\$637.9

Note 5: Deferred Outflows/Inflows of Resources

For the year ended June 30, 2020, the Commonwealth recognized OPEB expense of \$140.6 million. At June 30, 2020, the Commonwealth reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (\$ millions):

	Deferred Outflows	Deferred Inflows
Difference between actual and expected experience	\$ 0.0	\$ (289.6)
Change of Assumptions	0.0	(465.8)
Changes in proportion	51.7	(51.7)
Rounding Adjustment	0.0	0.1
Sub Total	<u>\$ 51.7</u>	<u>\$ (807.0)</u>
Amounts associated with transactions subsequent to the measurement date	<u>37.0</u>	N/A
Total	<u>\$ 88.7</u>	<u>\$ (807.0)</u>

\$37.0 million reported as deferred outflows of resources related to the Pre-Medicare Retiree Healthcare OPEB resulting from amounts associated with transactions subsequent to the measurement date will be recognized as a reduction of the total OPEB Liability in the measurement period ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pre-Medicare Retiree Healthcare OPEB will be recognized in the Pre-Medicare Retiree Healthcare OPEB expense as follows (\$ millions):

Year End June 30:

2021	\$(213.6)
2022	\$(213.6)
2023	\$(179.2)
2024	\$(100.5)
2025	\$ (40.3)
Thereafter	\$ (8.1)*

*This amount includes \$0.2 of rounding adjustments

Note 6: Employer Contributions

To establish each employer's portion of the OPEB liability, Human Resource Management uses each employer's calculated premium contribution, to include the October premium holiday amounts, as a percentage of the total calculated contributions for each year. The total calculated employer contributions for fiscal year 2020 were \$1,197,093,785. Once each percentage is calculated, the percentage for each employer is multiplied by the total OPEB liability in order to determine each employer's portion of the OPEB liability.

Note 7: Benefit Payments

Total benefit payments represent actual payments made subsequent to the measurement date of June 30, 2020. The amount also includes administrative expenses directly related to the OPEB subsequent to the measurement date. The total benefit payment amount is allocated to each employer based on the employer's percentage of total calculated employer contributions. Total benefit payments subsequent to the measurement date of June 30, 2020 are:

Pre-Medicare Retiree Claims	\$ 82,880,300
Pre-Medicare Retiree Contributions	(48,414,517)
OPEB Administrative Expenses	<u>2,573,782</u>
Benefit Payments	\$ 37,039,565

Note 8: Contact Information for DHRM

Please contact The Department of Human Resource Management for questions and concerns:

Patrice Elliott
Chief Financial Officer
(804) 371-7990
patrice.elliott@dhrm.virginia.gov

Jian Martin
Fiscal Officer
(804) 225-2361
Jian.Martin@dhrm.virginia.gov